AR31



PACIFIC PETROLEUMS LTD. ANNUAL REPORT 1966

Capacity of Pacific's gas processing plant at Empress, Alberta, is being expanded 50%.



APR - 7 1967

28TH ANNUAL REPORT 1966

PACIFIC PETROLEUMS LTD.

THE YEAR IN BRIEF

	1966	1965	% Increase
Financial			
Total Revenues	$ 61,997,535	$ 55,343,538	12.0
Cash Income	20,982,737	19,028,797	10.3
Net Profit	6,826,399	5,459,942	25.0
Per Share	.33	.26	
Shareholders' Equity			
Total	$235,674,893	$228,716,927	3.0
Per Share	11.29	10.96	3.0
No. of Shareholders	39,250	38,814	1.1
Shares outstanding	20,868,198	20,857,494	—
Operating			
Oil, Liquids (bbls/d)	39,806	38,231	4.1
Gas (Mcf/d)	216,000	194,000	11.3
Manufactured Product Sales	$ 31,975,000	$ 26,945,000	18.8

CONTENTS

Message to Shareholders 2
Financial Review 4
Pacific's Holdings 6
Review of Operations 7
Financial Statements 16
10-year Statistical Review 20
Directors and Officers . . . Inside Back Cover
Corporate Information . . . Back Cover

ANNUAL MEETING

The Annual General Meeting of the Shareholders of Pacific Petroleums Ltd. will be held in the Board Room, Hotel Vancouver, 900 West Georgia Street, Vancouver, B.C., Canada, on April 18, 1967 at 10:00 o'clock in the forenoon. A formal notice of the meeting, together with a proxy statement and a form of proxy for those who are unable to attend, are being mailed to each Shareholder.

TO THE SHAREHOLDERS



KELLY H. GIBSON
President



JAMES E. CHISHOLM
Executive Vice-President

Pacific Petroleums Ltd. experienced another year of major growth in 1966. Tangible gains were made in all phases of operations enabling the Company to reach new peaks in revenues, production and earnings. These financial and operating results are presented and discussed in detail on following pages of this Report.

One of the most gratifying developments of 1966 was a 25% increase in Pacific's net profit. This was the sixth consecutive year in which Company earnings have risen 20% or more. With each annual increment to the profit total, it becomes more difficult to maintain this high percentage growth rate in the following year. Nevertheless, Pacific is confident that another increase of this magnitude will be recorded in the Company's earnings in 1967.

In last year's operations, significant changes occurred in both the volume and the character of Pacific's sales. For the first time in Company history the volume of these sales exceeded the $60 million level. Also for the first time, the larger percentage of these revenues came from sources other than production of crude oil and natural gas. Fully 52% of the year's sales income was generated by the manufacturing and marketing ventures into which the Company began to diversify extensively less than five years ago. Sales of natural gas liquids from the Empress Plant and of Pacific 66 gasolines and other refined petroleum products grossed nearly $32 million during the year and made a substantial contribution to overall earnings. These sales and their profitable effects will undoubtedly increase as a result of the current expansion of the Empress Plant and the continuing build-up of the Pacific 66 marketing system.

In the closing months of 1966, a new Special Projects department was created at the executive level of the Company. This group will constantly seek and appraise opportunities for further successful diversification.

Pacific also initiated an intensified program last year to explore and develop more fully the 13 million gross acres of prospective land which are held by the Company throughout Western Canada's sedimentary basin. The 1966 capital budget for this purpose was increased by $7 million to a record total of $27.5 million. Further capital outlays of $30 million are programmed for the 1967 fiscal year.

The 1966 drilling campaign was highly successful and its results are fully recorded on Pages 7-10 of this Report. It will suffice to state here that the Company's success ratio in both exploratory and development drilling as well as in the aggregate discovery and development of additional reserves was considerably above the Canadian industry average.

The Company's production of crude oil and liquids increased 4% last year to an average of 39,806 barrels per day. An 11% increase was recorded in natural gas production, which rose from 194 million to 216 million cubic feet per day. An even more substantial gain in Company gas sales is in prospect this year when the Westcoast Transmission Company Limited pipeline system is extended to several additional British Columbia fields where Pacific holds large interests and reserves.

The successful exploration program and its additions to the Company's oil and gas production have helped to increase revenues. However, this production did not contribute as much to Pacific's earnings as it would have in prior years because the higher finding and production costs of oil and gas at the present time are not reflected in the wellhead prices now being paid to Canadian producers. In recent years these prices have not kept pace in the slightest degree with rising costs.

There has been no general adjustment of crude oil prices since the last increase of ten cents a barrel was put into effect in 1962. At present, the weighted average field price of $2.49 per barrel in Western Canada is 30% less than that in the United States. The situation with regard to natural gas is no better. The major gas purchasers in Western Canada today are offering contracts in which the price for gas is lower than they are presently paying under contracts which were negotiated in 1961.

While the producers' selling prices have remained static, many of their operating costs have been rising uncontrollably. Labor and material costs have increased in the petroleum industry as they have elsewhere throughout the economy. Prices for land have risen steadily under the pressures of inflation and of competition at government auctions. Heavy additional burdens also have been placed upon producers by the recent shift of exploration to remote parts of the Canadian North where drilling costs often are three times as high as they are in more accessible areas.

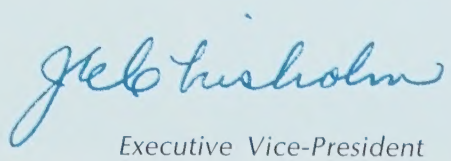
It is essential that field prices be adjusted into a more economic relationship with exploration and production costs. Incentive must be restored at this basic level so that the industry will continue to invest its capital and effort in the development of the vast petroleum potential of Canada.

The Directors express their appreciation of the conscientious and effective work of Pacific's employees and the loyal support of customers and shareholders during the past year.

For the Board of Directors



President



Executive Vice-President

FINANCIAL REVIEW

Record high levels of revenue, net income and cash generation were established by the Company in 1966. Consolidated revenues for the year were $61,997,535, an increase of 12% over 1965 revenues which totalled $55,343,538. Consolidated net income for the year was $6,826,399 or 33c per share, an increase of 25% over the $5,459,942 or 26c per share in the preceding year. Cash generated from operations in 1966 totalled $20,982,737 or $1.00 per share compared with $19,028,797 or 91c per share in the previous year.

Significant increases in production and sales were achieved during the year in all segments of Company operations. Production of natural gas increased 11% while that of crude oil and liquids gained more than 4% over 1965. Sales of natural gas and crude oil yielded $29,582,000 in 1966 compared with $27,786,000 the previous year. Sales of refined products, gasoline, distillates, natural gas liquids and specialty products totalled $31,975,000 in 1966 compared with $26,945,000 in 1965. This 19% gain was attributable to increased sales volumes as well as to the substantially improved prices obtained for natural gas liquids.

EXPENSES

During the year, operating and other expenses totalled $41,014,798 compared with $36,314,741 in 1965. Most of the increase consisted of product purchase costs and selling expenses incurred in the substantial increase in product sales. It is noteworthy that despite the strong inflationary pressures affecting costs of process materials as well as labor, the proportion of expense to Pacific's revenue dollar remained virtually unchanged in 1966. This was due to the lowering of unit costs through increased production and sales and also to successful cost control measures in Company operations.

Non-cash items charged during the year, principally provision for depletion and depreciation, as described in Note 2 of the Financial Statements, totalled $14,156,338 compared with $13,302,361 in 1965.

In 1964, the Company adopted the "Full Cost" accounting system under which all costs of exploration for and development of oil and gas reserves (except those for production equipment) are capitalized and are subsequently written off on a composite unit-of-production basis related to total recoverable reserves. Production equipment costs are depreciated on the basis of recoverable reserves in the particular field where such equipment is installed. During 1966, depreciation of $1,446,000 and depletion of $9,241,000 were charged against income with respect to this phase of operations.

The amount provided for depletion was 4% more than in 1965, the increase being due to the larger volumes of production. However, the depletion rate per unit of production declined during the past year, reflecting the growth of Pacific's reserves of natural gas, crude oil and natural gas liquids.

RESERVES

The Company's remaining proven reserves, before deducting lessor's royalties, are estimated to be 220,000,000 barrels of crude oil and natural gas liquids, 3.2 trillion cubic feet of marketable natural gas and 1.2 million long tons of sulphur. These reserve figures were recently submitted to and accepted by the United States Securities and Exchange Commission. It should be noted that "probable reserves" and reserves contained in the Company's holdings in the Athabasca Tar Sands are not included in these figures. In addition to the natural gas liquids reserves in the foregoing estimates, the Company has L.P.G. extraction rights in conjunction with the Empress Plant which, based on conservative estimates, will yield more than 140,000,000 barrels of propane, butanes and natural gasoline during the next 25 years.

WORKING CAPITAL

Pacific maintained a strong working capital position in 1966, with a 1.61 to 1 ratio of current assets to liabilities at year-end. The decrease of $8,640,403 from the previous year resulted from increased capital investment in the Company's expansion program. Accounts receivable, inventories and current liabilities increased during the year to levels consistent

with the larger volume of business done by the Company. The changes in working capital are summarized in the Source and Application of Funds statement on Page 18 of this Report.

FINANCING

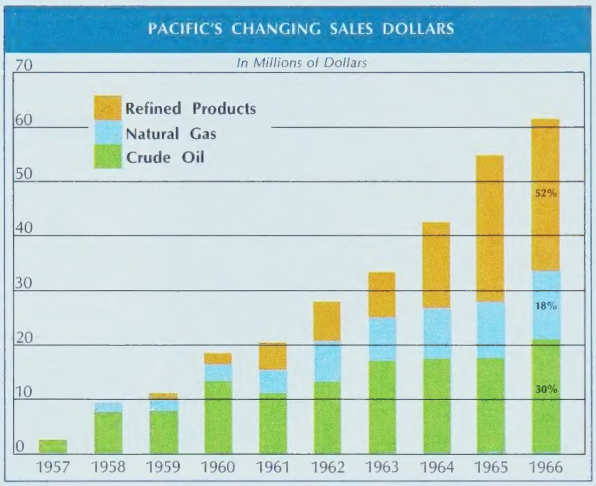
No new major financing was undertaken during the past year. Bank production loans totalling $2,600,000 provided for capital expenditures. A loan of $10,000,000 (U.S.) was previously arranged to cover the cost of the expansion of the Empress Project and these funds will be drawn down as required. Additional bank credits are available to finance the Company's capital program in 1967 and no additional major financing is contemplated at this time.

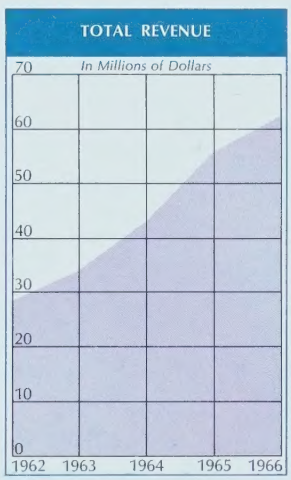
INCOME TAX

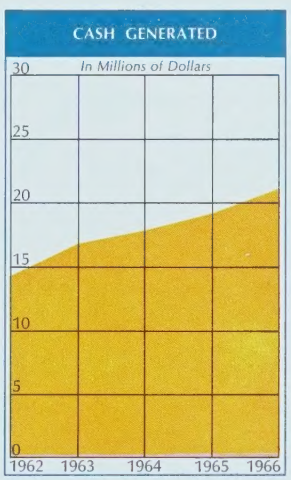
The Canadian Income Tax Act allows the deduction from income of all costs incurred in the acquisition and maintenance of petroleum lease rights, exploration and drilling. If the costs incurred exceed the income for the year, the excess may be carried forward to subsequent years without limitation. The Company and its two principal subsidiaries, Bailey Selburn Oil & Gas Ltd. and Western Natural Gas Company, Inc., have accumulated deductible expenditures substantially in excess of their incomes, and did not require provisions for income taxes in 1966. The balance of expenditures at December 31, 1966 to be carried forward and offset against future income is in excess of $110,000,000.

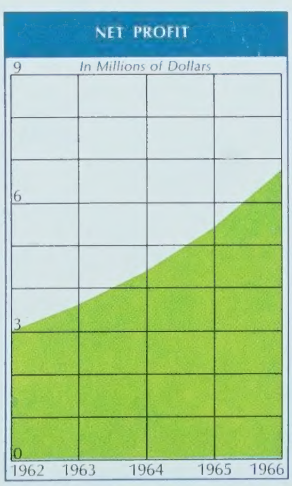
RETIREMENT PLAN

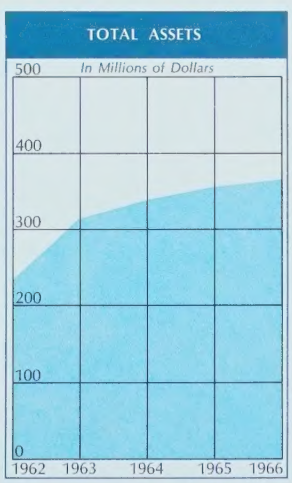
Pacific maintains a contributory Retirement Plan for its employees. The Plan is a Defined Benefit Plan and is registered for income tax purposes. Participation in the Plan is mandatory for all regular employees after one year's service. All past and present benefits have been funded. The Canada Pension Plan was implemented on January 1st, 1966 and all Company employees were given an option of either integrating with the Canada Pension Plan or making the Canada Pension Plan contributions in addition to contributions to the Company Plan.











Map Showing

Holdings and Operations of

PACIFIC PETROLEUMS LTD.

At December 31, 1966

Pacific's Holdings Include:

	Gross	Net
Land (acres)	13,739,688	7,874,041
Oil Wells	5,463	649
Natural Gas Wells	860	307

	Rated Capacity*	Interest
PLANTS		
Empress Plant (natural gas processing)	25,000 bbls/d.	100%
Taylor B.C. Refinery	14,000 bbls/d.	100%

* After current expansion

Pacific also holds varied interests in 24 other natural gas processing plants in Western Canada. The Company's current share of their production is approximately 2,500 barrels of natural gas liquids and 70 long tons of sulphur per day.

PIPELINES	
Petroleum Transmission Company	100%
Westcoast Transmission Company Limited	26%
Western Pacific Products and Crude Oil Pipelines	12%
PLASTICS	
Leco Industries Limited (Plants at Toronto, Montreal)	25%
Midland Industries Limited (Plant at Midland, Ont.)	100%

	No. of Outlets	
GASOLINE MARKETING		
Pacific 66 System	233	
PROPANE MARKETING		
Quebec Propane Inc.	11	100%

EXPLORATION AND PRODUCTION

The exploration and production activities of the Company were greatly expanded during the past year and as a result Pacific increased its output of crude oil and natural gas to new high levels. Record capital expenditures of $27,500,000 were committed to this phase of operations, an increase of approximately $7,000,000 over the previous year.

Larger outlays for acquisition of acreage and for more extensive exploratory and development drilling accounted for most of the increased expenditures. Land purchase costs totalled $4,900,000 compared with $3,300,000 in 1965. Expenditures for geological and geophysical surveys were increased to $1,700,000, nearly double the 1965 figure. Nearly $11,000,000 was expended for drilling operations, a 40% increase over the 1965 outlay.

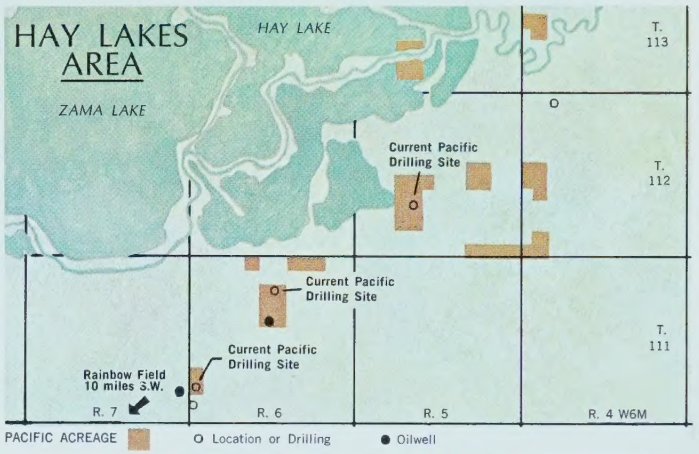
In the 1966 drilling program, the Company drilled or participated in the drilling of 211 wells. Of these, 94 proved to be commercial oil wells, 64 were gas producers and 53 were dry holes. This 75% success ratio was the highest achieved by Pacific since 1963 and it compared with an average of 62% attained by the Canadian petroleum industry as a whole in 1966.

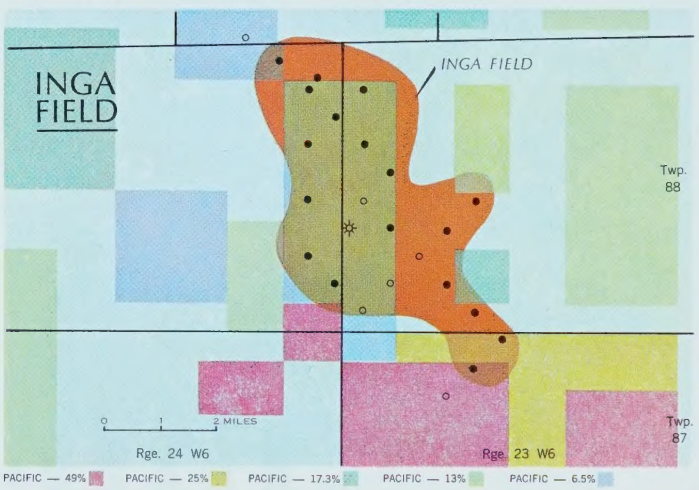
Among the 211 wells in the Company's drilling program, 67 were wildcat or stepout wells. These exploratory ventures resulted in 22 discoveries–five oil wells and 17 natural gas wells. Pacific's 33% success ratio in this exploratory drilling was somewhat better than the Company's average in 1965. The industry-wide success rate for exploratory drilling in Canada in 1966 was 25%.

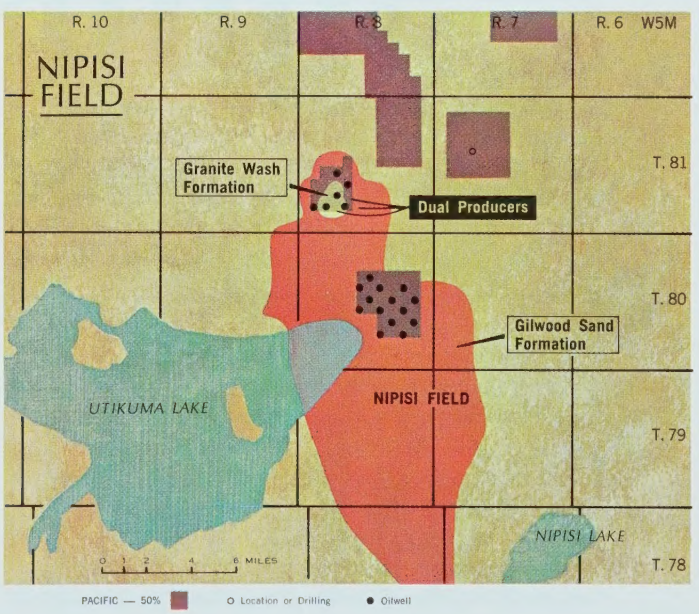
Some of the more noteworthy drilling results of the past year are discussed in this section of the Annual Report and the locations and characteristics of various fields are illustrated on accompanying maps on Pages 6, 7 and 8.

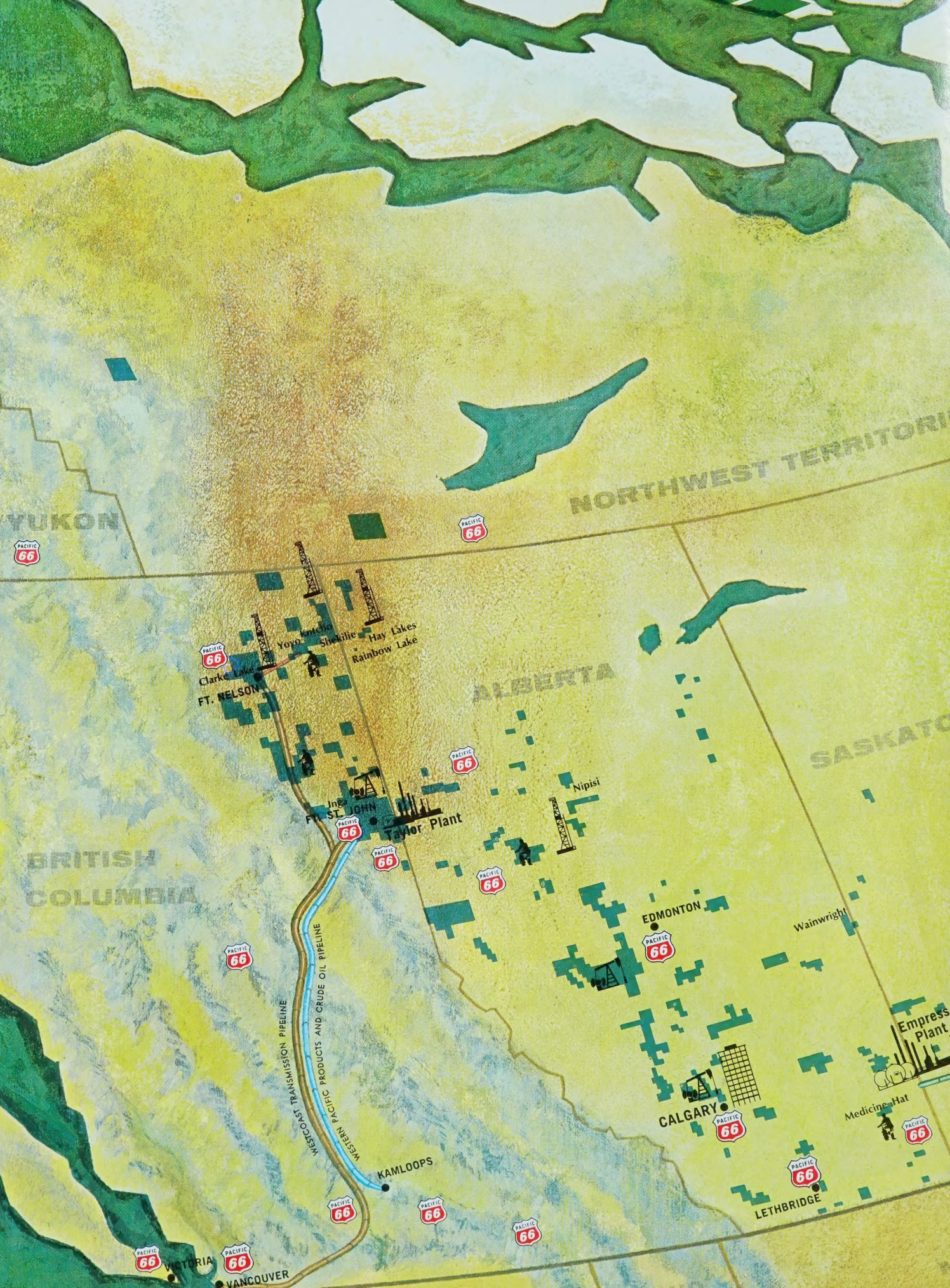
CRUDE OIL

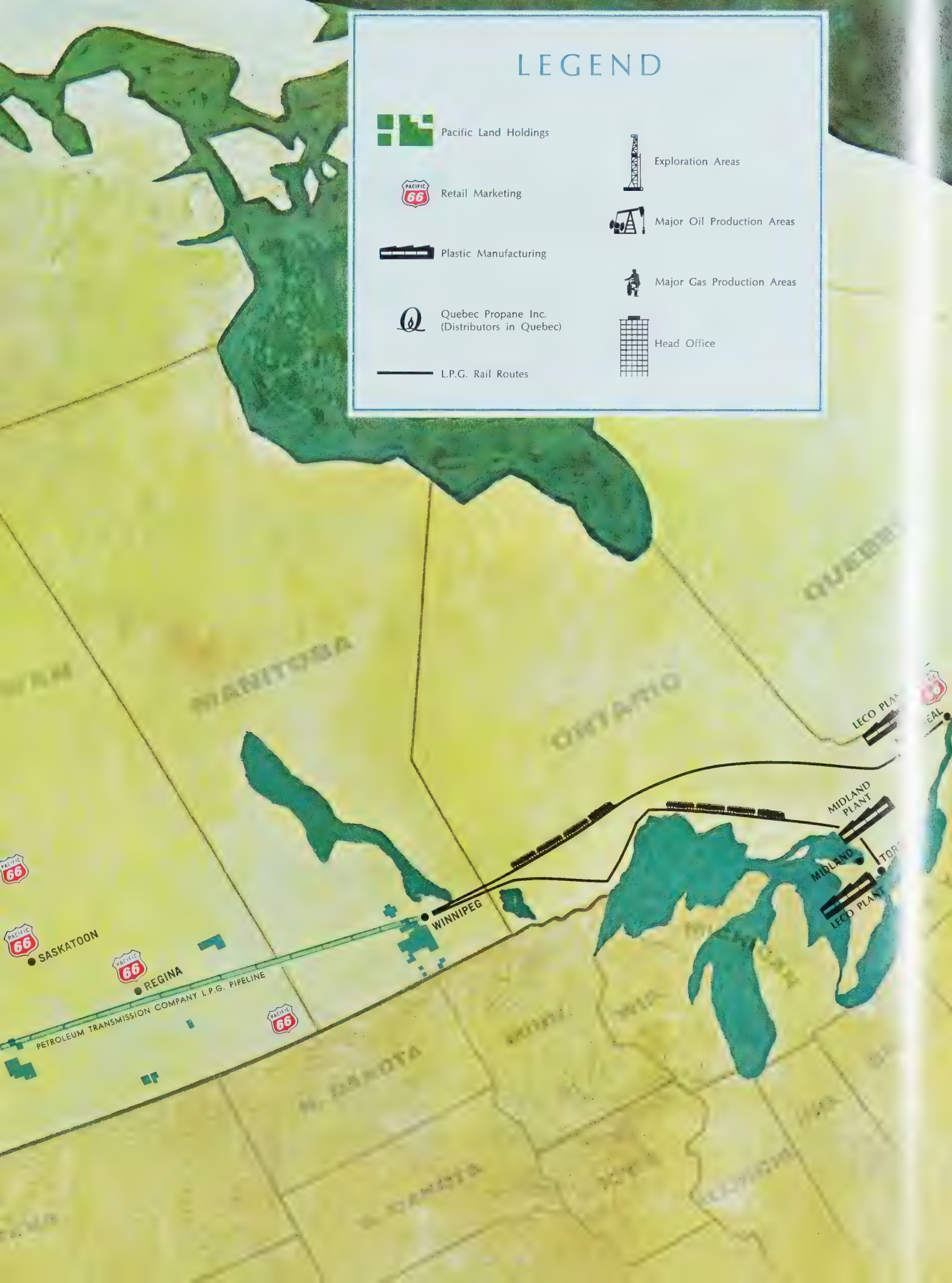
A major effort to discover new oil reserves was concentrated in the general Rainbow Lake area of northwestern Alberta and contiguous areas of British Columbia. Pacific held considerable acreage throughout this region at the time of the first discovery of highly productive

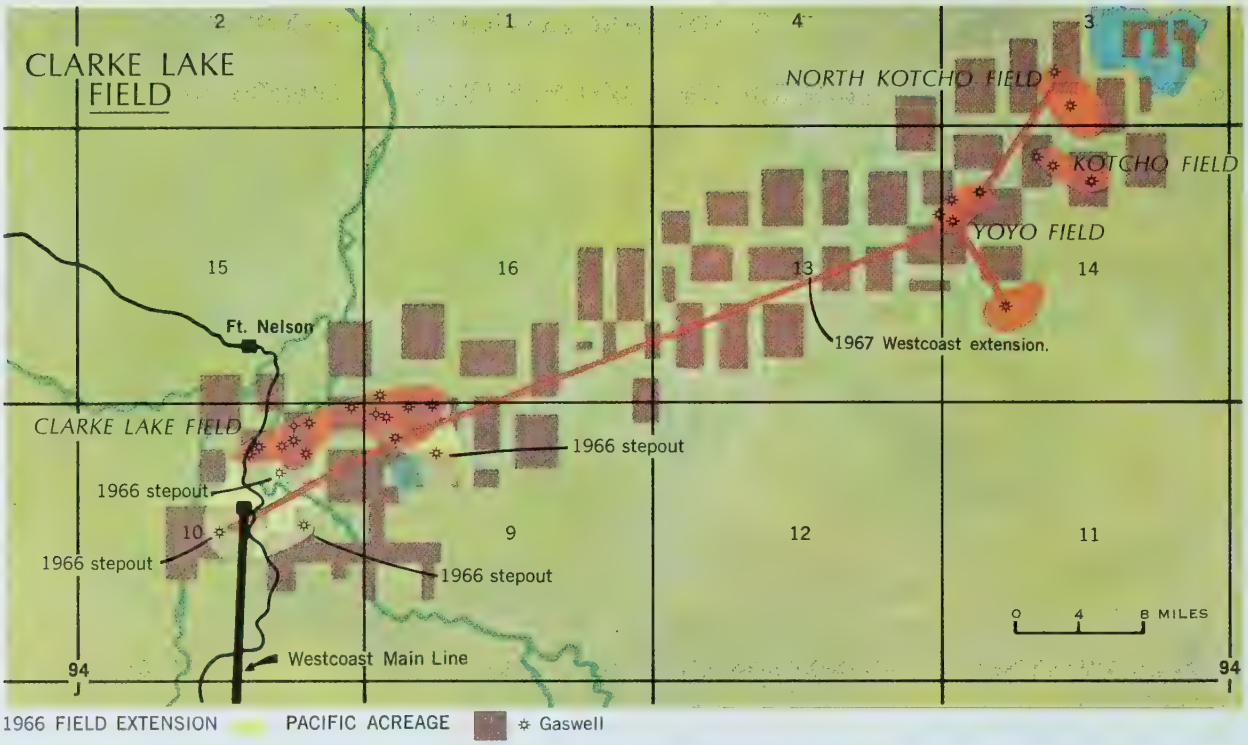


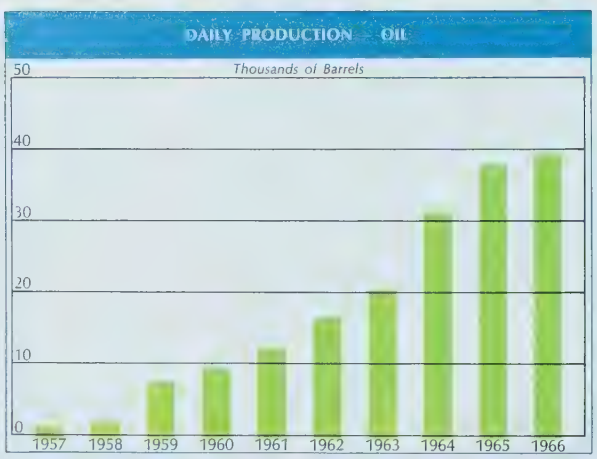


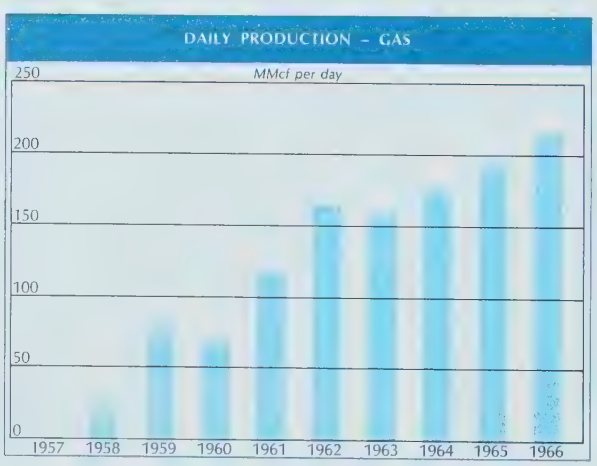



NORTHWEST TERRITORIES
YUKON
ALBERTA
SASKATCHEWAN
BRITISH COLUMBIA
Yoyo
Kotcho
Sheklilie
Hay Lakes
Rainbow Lake
Clarke Lake
FT. NELSON
Ingo
FT. ST. JOHN
Taylor Plant
Nipisi
EDMONTON
Wainwright
Empress Plant
CALGARY
Medicine Hat
LETHBRIDGE
KAMLOOPS
VICTORIA
VANCOUVER
WESTCOAST TRANSMISSION PIPELINE
WESTERN PACIFIC PRODUCTS AND CRUDE OIL PIPELINE
PACIFIC 66


LEGEND
Pacific Land Holdings
Retail Marketing
Plastic Manufacturing
Quebec Propane Inc.
(Distributors in Quebec)
L.P.G. Rail Routes
Exploration Areas
Major Oil Production Areas
Major Gas Production Areas
Head Office
MANITOBA
ONTARIO
QUEBEC
WINNIPEG
SASKATOON
REGINA
PETROLEUM TRANSMISSION COMPANY L.P.G. PIPELINE
MIDLAND PLANT
MIDLAND
LECO PLANT
N. DAKOTA
S. DAKOTA







crude oil reservoirs in the Keg River formation at Rainbow Lake in 1965. The Company's land position in the area was strengthened further through acquisition of additional parcels closer to the initial discovery site.

Early in 1966, four wildcat wells were drilled on the Company's Rainbow Lake acreage in Alberta. These resulted in one oil discovery and one gas well. The successful oil well was completed on a newly-acquired parcel in the Hay Lakes area, 17 miles northeast of the Rainbow field. This well, which flowed at the rate of more than 300 barrels per day on initial test, is now on production. Its completion provided geological information which enabled the Company to evaluate other holdings in the Hay Lakes area and three additional wells are being drilled on this Pacific acreage during the current winter drilling season.

In the Inga area of northeastern British Columbia, a significant oil discovery was made in the Charlie Lake sand formation. The Company has interests ranging from 8% to 49% in several blocks of acreage in or near the Inga field. At the year-end, 14 oil wells had been completed in this new field and six more wells were scheduled to be drilled at infill locations on Pacific land during 1967. The Company's share of production from the Inga field will exceed 250 barrels per day.

During the past year, Pacific continued the successful development of its holdings in the Nipisi area of north-central Alberta. Twenty-one additional wells were completed in this field on properties in which Company interests



Drilling operations on Company acreage in northeastern British Columbia.

In the Clarke Lake field, below, additional wells were put on production last winter to meet increased market demand for natural gas.



range from 50% to 100%. On one of Pacific's 50% interest blocks, oil was discovered in the Granite Wash sand as well as in the Gilwood formation, the primary producing horizon in the Nipisi field. The initial dual well flowed at a rate of 548 barrels per day from the Granite Wash and at a rate of 672 barrels per day from the Gilwood. Three of these dual wells were completed on the Pacific acreage.

In the Wainwright area, near the Alberta-Saskatchewan boundary, Pacific carried out a successful program to expand its heavy oil production. Ten wells were completed on acreage in which the Company holds 81% to 100% interests. These completions raised Pacific's Wainwright production to 940 barrels per day, more than double the 1965 rate.

As a result of the foregoing and other favorable developments during the year, Pacific's crude oil and liquids production averaged 39,806 barrels per day, an increase of 1,575 barrels per day or 4% over that of the preceding year.

NATURAL GAS

As in previous years, the Company's efforts to increase production and reserves of natural gas were concentrated in the Fort Nelson area of northeastern British Columbia. When pending applications are approved by Canadian and U.S. Government authorities, Westcoast Transmission Company Limited will greatly increase its gas purchases in this area. In anticipation of this demand, Pacific carried out an intensive



The Company's sulphur production is increasing steadily and now exceeds 25,000 long tons, valued at more than $1,000,000 annually.

program of stepout and development drilling in the Clarke Lake area on acreage in which the Company's interest is 45%.

Six successful completions extended the limits and increased the productive capacity of the Clarke Lake field. The new wells compare favorably with those previously drilled in this exceptional reservoir. Pay zones in some instances are more than 150 feet thick and the absolute open flow potential of one of the new wells is 228 million cubic feet per day.

Prior to the 1967-68 heating season, the Westcoast gathering system will be extended to the Yoyo and Kotcho fields where Pacific has substantial shut-in gas reserves and further drilling is being done there during the current winter season to develop the productivity of these fields.

A promising new region for natural gas production was discovered early in 1966 in the Shekilie area of British Columbia. Pacific holds interests of 75% to 100% in a 75,000-acre block in this area which lies less than 30 miles northwest of the Rainbow Lake oilfield in Alberta. One exploratory well was drilled on the property early in 1966 and resulted in an Elk Point gas discovery. Further drilling will be done in this area.



The lead-zinc outcropping on Mount Copeland in British Columbia, above, was one of more than 60 properties examined last year in Pacific's mineral exploration program.

Late in the year, ten successful gas wells were completed on 100%-owned acreage which was recently acquired by the Company in the Medicine Hat area of southern Alberta. These wells are of particular value to Pacific because this gas can be marketed immediately to serve as an economic fuel supply at the nearby Empress Plant.

Pacific's production of natural gas increased last year to an average of 216 million cubic feet per day. This was an 11% advance over the 1965 production rate and it marked a continuation of the rapid growth of recent years in this phase of the Company's operations.

SALES

The sales of Pacific refined products and liquefied petroleum gases (L.P.G.) in 1966 totalled 344,000,000 gallons, an increase of 18% over 1965. Prevailing prices for these products were firmer than during the previous year with the result that revenues increased at a slightly higher rate than sales volumes. The Company's 1966 revenues from these sales were $32 million, a gain of $5 million or 19% over 1965.

L.P.G.

Pacific's sales of natural gas liquids in 1966 showed a 20% increase over the 1965 figure. The more stable prices and increased market demand for these products which began to develop in the latter part of 1965 continued throughout the past year and enabled the Company to sell all of its production of L.P.G. at optimum realization.

The most pronounced growth in demand for L.P.G. occurred in the farm areas of Western Canada and in the industrial centres of Ontario and Quebec.The larger volumes required in the west were supplied by increasing the throughput of the Company-owned products pipeline which traverses southern Saskatchewan and Manitoba. Additional automation equipment was installed at the Empress Plant so that from this single control point it was possible to maintain automatic around-the-clock delivery service at all the pipeline's distribution depots across the prairies.

In order to meet growing L.P.G. market demands in Eastern Canada, the Company expanded its fleet of jumbo tank cars from 167 to 211 units. This fleet is the largest of its kind in Canada.

Two years ago, Pacific acquired six L.P.G. distribution companies serving suburban Montreal and areas on the south shore of the St. Lawrence River. These companies were consolidated in one wholly-owned subsidiary, Quebec Propane Inc., late in 1965. During the past year, Q.P.I. enlarged its share of the Quebec market and achieved greater efficiency and economy of operations through centralization under single management.



More tanks and jumbo tank cars were required last year to store and transport the Company's increased production of natural gas liquids.

From this control panel at the Empress Plant L.P.G. deliveries can be made automatically at depots along a 579-mile pipeline to Winnipeg.





This bungalow-type station in a Vancouver, B.C. residential area won high praise from city planning authorities for its harmonious design.



Visitors to Montreal's Expo '67 can obtain Pacific 66 service at this station opened recently on the main approach to the Expo site.



Night view of a brightly-lit Pacific 66 station which is serving motorists in Saskatoon, Saskatchewan.

In the expansion of the Pacific 66 marketing system, the Company is building prestige stations which feature the most modern designs.



Pacific is building an increasing number of stations in new shopping centre complexes like this one in Edmonton, Alberta.



Pacific 66 service station facilities are combined with a modern car washing plant in this outlet in Calgary, Alberta.

SUBSIDIARY AND AFFILIATE COMPANIES' OPERATIONS



Quebec Propane Inc. truck makes a delivery on grounds of Expo '67 in Montreal.



Plastic novelties are manufactured at Leco Industries Limited plant in Toronto.



A production line in the plant of Midland Industries Limited at Midland, Ontario.

RETAIL MARKETING

In the past year, the Company again moved ahead toward its long- term objective of building a system of prestige service stations across Canada. Additional outlets were opened in the western provinces of British Columbia, Alberta and Saskatchewan. In the latter part of the year, properties were acquired in the Winnipeg area and work was commenced on the building of the first Pacific 66 stations in the Province of Manitoba.

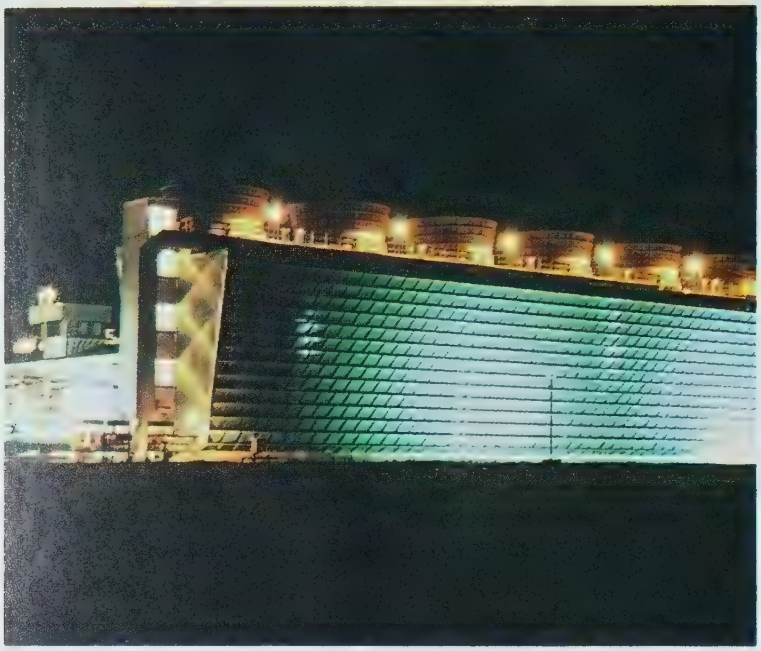
Despite the intense competition in the retail marketing of gasoline, the Pacific 66 brand continued last year to gain an ever-increasing share of the Canadian market. The Company's total retail sales volume in 1966 was 27% greater than in the previous year. The number of Pacific 66 credit cards in circulation rose 30% and sales to these card-holders were 44% ahead of 1965.

PLASTICS

Pacific made further progress last year in the development of the Canadian market for Marlex, the patented brand of polyolefin resins which the Company is licensed to import and distribute in Canada.

Both of the plastics manufacturing firms in

Around the clock in this large structure at the Empress Plant, 42,000 gallons of water per minute are circulated and cooled for use in natural gas processing.





These steel workers are erecting framework for one of the new oil storage tanks under construction at the Company's Taylor, B.C. refinery.

which Pacific holds interests expanded their production and sales in the past year. These firms are Leco Industries Limited, which specializes in film extrusion in its plants in Ontario and Quebec, and Midland Industries Limited, which manufactures molded plastics at Midland, Ontario.

MANUFACTURING

During the past year, Pacific commenced a $10,000,000 program to expand its refining and manufacturing facilities.

At the Company's refinery at Taylor, B.C., additional equipment is being installed to increase the productive capacity of the plant from 11,000 to 14,000 barrels per day. Storage facilities will be enlarged to hold an additional 250,000 barrels of refined products. This $1,600,000 expansion was undertaken in order to meet increased demand for petroleum products throughout the northern areas of British Columbia and Alberta which are served by the Pacific refinery.

Engineering work was completed and equipment was ordered last year for a major expansion of the Company's gas processing plant at Empress, Alberta, during 1967. This project will cost approximately $8,400,000 and will increase the rated processing capacity of the plant from 1 billion cubic feet to 1.5 billion cubic feet of raw gas per day. Construction is scheduled to be completed in the fall of 1967 so that the new facilities will be operative in the winter heating season of 1967-68.

Both the Taylor refinery and the Empress Plant operated above their rated capacities through the past year. The refinery achieved a 16% increase in production. At Empress the total amount of gas processed was 9% greater than in 1965. The daily throughput at Empress last year exceeded the one billion cubic feet mark for the first time with an average of 1.05 billion cubic feet of gas being processed as compared with a daily throughput of 955 million cubic feet in 1965.

Pacific holds 100% interest in the 579-mile Petroleum Transmission Company pipeline which is the only west-east products pipeline in Canada. This line which transports propane and butane from Empress to Winnipeg is now operating at capacity. Plans are being made to install additional pumping facilities in the pipeline system so that its throughput can be increased to accommodate the enlarged production of the Empress Plant.

PACIFIC PETROLEUMS LTD.

FINANCIAL STATEMENTS

STATEMENT OF CONSOLIDATED INCOME AND EARNED SURPLUS

STATEMENT OF CONSOLIDATED PAID-IN SURPLUS

STATEMENT OF CONSOLIDATED FINANCIAL POSITION

STATEMENT OF CONSOLIDATED SOURCE AND APPLICATION OF FUNDS

AUDITORS' REPORT TO THE SHAREHOLDERS

NOTES TO FINANCIAL STATEMENTS

TEN-YEAR FINANCIAL AND STATISTICAL REVIEW

STATEMENT OF CONSOLIDATED INCOME AND EARNED SURPLUS

YEARS ENDED DECEMBER 31, 1966 AND 1965
(Canadian Dollars)

	1966	1965
Sales of crude oil, gas and refined products	$ 61,557,329	$ 54,730,798
Interest and other investment income	440,206	612,740
Total revenue	61,997,535	55,343,538
Deduct:		
Product and merchandise purchases	13,339,045	12,323,297
Producing, refining and selling expenses	18,050,274	15,061,993
General and administrative expenses	2,465,184	2,275,310
Interest on long term debt	6,643,722	6,422,872
Income taxes (Note 7)	516,573	231,269
	41,014,798	36,314,741
Income before depletion, depreciation and amortization	20,982,737	19,028,797
Deduct:		
Provision for depletion	9,241,088	8,896,088
Provision for depreciation	4,406,554	3,962,123
Amortization of debt discount and expense	508,696	444,150
	14,156,338	13,302,361
Income before dividends on preferred shares of subsidiary	6,826,399	5,726,436
Dividends on preferred shares of subsidiary	–	266,494
Net income for the year	**6,826,399**	**5,459,942**
Earned surplus at beginning of year	9,349,231	3,889,289
Earned surplus at end of year	$ 16,175,630	$ 9,349,231
Net income per share	$.33	$.26

STATEMENT OF CONSOLIDATED PAID-IN SURPLUS

YEARS ENDED DECEMBER 31, 1966 AND 1965
(Canadian Dollars)

	1966	1965
Balance at beginning of year	$198,510,202	$198,207,572
Premium on shares issued	120,863	302,630
Balance at end of year	$198,631,065	$198,510,202

(See accompanying notes)

STATEMENT OF CONSOLIDATED FINANCIAL POSITION

DECEMBER 31, 1966 AND 1965
(Canadian Dollars)

	1966	1965
NET ASSETS		
CURRENT ASSETS		
Cash	$ 683,457	$ 726,529
Short term and demand deposits	–	9,238,887
Marketable securities at cost (quoted market value 1966 – $699,031; 1965 – $621,600)	216,346	181,181
Accounts receivable	15,987,223	13,086,714
Inventories valued at the lower of cost or replacement cost		
Crude oil, refined products and merchandise	2,664,254	2,325,582
Material and Supplies	2,433,454	1,764,087
	21,984,734	27,322,980
Deduct CURRENT LIABILITIES		
Accounts payable and accrued liabilities	10,572,582	8,539,960
Long term debt due within one year	3,094,739	1,825,204
	13,667,321	10,365,164
WORKING CAPITAL	8,317,413	16,957,816
INVESTMENTS		
Westcoast Transmission Company Limited – 1,722,712 shares at cost (quoted market value 1966 – $43,893,781; 1965 – $37,812,789)	11,735,648	11,735,648
Other investments at cost less allowance	2,059,662	2,020,599
	13,795,310	13,756,247
PROPERTY, PLANT AND EQUIPMENT AT COST (Note 2)	414,788,788	386,591,000
Less depletion and depreciation	96,137,242	82,679,843
	318,651,546	303,911,157
OTHER ASSETS (Note 4)	11,711,976	11,887,474
TOTAL ASSETS LESS CURRENT LIABILITIES	352,476,245	346,512,694
Deduct LONG TERM DEBT (Note 3)	116,483,343	117,384,915
	235,992,902	229,127,779
Deduct MINORITY INTEREST	318,009	410,852
NET ASSETS	$235,674,893	$228,716,927
COMMITMENTS AND CONTINGENCIES (Note 6)		
SHAREHOLDERS' EQUITY		
SHARE CAPITAL (Note 5)		
Authorized – 30,000,000 shares of a par value of $1.00 each		
Issued – 20,868,198 shares (1965 – 20,857,494 shares)	$ 20,868,198	$ 20,857,494
PAID-IN SURPLUS	198,631,065	198,510,202
EARNED SURPLUS	16,175,630	9,349,231
SHAREHOLDERS' EQUITY	$235,674,893	$228,716,927

ON BEHALF OF THE BOARD

Kelly Gibson Director

C. A. Dawson Director

(See accompanying notes)

PACIFIC PETROLEUMS LTD. AND SUBSIDIARY COMPANIES

STATEMENT OF CONSOLIDATED SOURCE AND APPLICATION OF FUNDS

YEARS ENDED DECEMBER 31, 1966 AND 1965
(Canadian Dollars)

	1966	1965
Funds provided by:		
Income before depletion, depreciation and amortization	$ 20,982,737	$ 19,028,797
Long term borrowing	2,600,000	70,459,122
Sales of assets and miscellaneous receipts	1,349,838	1,719,643
Issue of shares	131,567	328,801
	25,064,142	91,536,363
Funds applied to:		
Additions to property, plant and equipment including exploration and development	27,293,969	21,051,738
Acquisition of subsidiaries and minority interest	1,880,024	14,606,587
Repayment of long term debt	3,501,572	37,564,352
Additions to other assets	1,028,980	4,803,784
Dividends on preferred shares of subsidiary	–	266,494
	33,704,545	78,292,955
Net increase (decrease) in working capital	(8,640,403)	13,243,408
Working capital at beginning of year	16,957,816	3,714,408
Working capital at end of year	$ 8,317,413	$ 16,957,816

AUDITORS' REPORT

To the Shareholders of Pacific Petroleums Ltd.

We have examined the statement of consolidated financial position of Pacific Petroleums Ltd. and subsidiary companies as at December 31, 1966 and the statements of consolidated income and earned surplus, paid-in surplus and source and application of funds for the year ended on that date. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and other auditing procedures as we considered necessary in the circumstances.

In our opinion, the statements mentioned above present fairly the financial position of Pacific Petroleums Ltd. and subsidiary companies as at December 31, 1966 and the results of their operations and the sources and applications of funds for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Calgary, Canada
February 4, 1967

CLARKSON, GORDON & CO.
Chartered Accountants

NOTES TO FINANCIAL STATEMENTS

1. PRINCIPLES OF CONSOLIDATION

Included in the consolidated statements are the accounts of Pacific Petroleums Ltd. and all of its subsidiaries. The excess of the consideration paid for the shares of purchased subsidiaries over the net book value of the related assets at dates of acquisition is attributable to property, plant and equipment and is included therein in the accompanying statement of consolidated financial position.

The accounts of foreign subsidiaries have been converted to Canadian dollars on the following basis: current assets and current liabilities at the rates of exchange in effect at the year end, and fixed assets, expenses and revenue at the appropriate month-end rates of exchange.

2. PROPERTY, PLANT AND EQUIPMENT

	1966	1965
Oil and Gas	$342,554,629	$316,653,727
Manufacturing	43,921,310	43,745,688
Transmission	10,327,756	10,142,131
Marketing	11,013,417	9,667,162
Other	6,971,676	6,382,292
	414,788,788	386,591,000
Deduct:		
Accumulated depletion	69,744,675	60,130,273
Accumulated depreciation	26,392,567	22,549,570
	96,137,242	82,679,843
Net property, plant and equipment	$318,651,546	$303,911,157

The companies follow the practice of capitalizing all costs related to the exploration for and development of oil and gas reserves and depleting such costs by a composite unit-of-production method based on total estimated reserves.

3. LONG TERM DEBT

Long term debt due after one year consists of the following:

	Maturity Date	1966	1965
5½% and 5¼% First Mortgage and Collateral Trust Sinking Fund Bonds, less amounts held in sinking funds	1967	$ –	$ 808,722
5¼% Bank Loan repayable semi-annually (1966 – $4,000,000 U.S.; 1965 – $5,000,000 U.S.)	1969	4,311,755	5,389,694
Twenty Year 5% Subordinate Debentures redeemable and subject to sinking fund commencing July 1, 1967 (1966 – $10,502,250 U.S.; 1965 – $11,055,000 U.S.)	1977	10,074,808	10,604,583
5½% Secured Notes subject to annual sinking fund payments commencing in 1970 ($26,000,000 U.S.)	1978	28,006,015	28,006,015
5¼% Notes repayable annually commencing in 1970 ($65,000,000 U.S.)	1985	70,115,500	70,115,500
6% Bank Loan repayable monthly (secured by certain producing properties)	1971	1,798,668	–
Sundry Mortgages, Notes, etc.	Various to 1984	2,176,597	2,460,401
		$116,483,343	$117,384,915

Long term obligations which are payable in United States funds are recorded in the accounts in equivalent Canadian dollars on the date the funds were borrowed. The current portion of such obligations at December 31, 1966 has been converted to Canadian dollars based on the exchange rate in effect at that date. Sinking fund requirements or retirement provisions in respect of long term debt are $3,347,000 in 1968, $3,347,000 in 1969, $8,077,000 in 1970 and $7,794,000 in 1971.

4. OTHER ASSETS

	1966	1965
Payments under gas processing contract less amortization	$ 4,621,415	$ 4,617,851
Exploration, development and construction in progress	2,357,271	2,228,547
Deferred debt discount and expenses less amortization	3,081,598	3,508,474
Deferred accounts receivable, refundable deposits, etc.	1,651,692	1,532,602
	$ 11,711,976	$ 11,887,474

5. SHARE CAPITAL

During the year the Company issued 10,704 shares for a consideration of $131,567 in acquisition of shares of a subsidiary and to employees under a share purchase plan. Of the total consideration, $10,704 was credited to share capital account and the balance to paid-in-surplus. During the year an option to purchase 3,000 shares was cancelled. No options were issued or exercised during the year. At December 31, 1966 options were outstanding to directors and officers and to employees to purchase 66,100 and 12,000 shares respectively at prices ranging from $9.85 to $15.25 per share exercisable from time to time to May 1, 1974. In addition, shares of the Company's capital stock were reserved at December 31, 1966 as follows:

	Shares
For exercise of share purchase warrants –	
Relating to the 5½% and 5¼% First Mortgage and Collateral Trust Sinking Fund Bonds at $42 per share. The warrants expire March 1, 1967	120,000
Relating to the Fifteen Year 5½% Sinking Fund Debentures (redeemed May 3, 1965) at $19 U.S. per unit of 1.1 shares. The warrants expire March 31, 1968	660,000
For issuance to officers and employees under share purchase plans	249,996
For acquisition of Class "A" shares of Bailey Selburn Oil & Gas Ltd., a 98.2% owned subsidiary	87,482
	1,117,478

6. COMMITMENTS AND CONTINGENCIES

An action was commenced in 1961 against the Company for certain alleged benefits under farmout agreements and for damages for breach of contract in the amount of $5,000,000. The Company has denied any liability and, in the opinion of Counsel, there is nothing to justify or support the substantial monetary claim or other claims of substance put forward by the Plaintiff.

Annual rental obligations for marketing properties under long term leases at December 31, 1966 amount to approximately $1,079,000.

7. INCOME TAXES

Under Canadian income tax law, drilling, exploration and property acquisition costs, which are capitalized in the accounts, are deductible from income in the year incurred, or if such costs exceed income for the year, the excess may be carried forward to subsequent years. As a result, no provision for income taxes was required by the Company for the year ended December 31, 1966 and at that date a substantial excess of such costs was available to be carried forward and applied against future taxable income. Taxes on income have been provided in respect of certain subsidiary companies.

8. DIRECTORS' REMUNERATION

The total remuneration paid to the directors of the Company during the year, as directors, officers and employees, including all salaries, fees and contributions to pension funds, amounted to $159,622 (1965 – $159,278).

PACIFIC PETROLEUMS LTD.

TEN-YEAR FINANCIAL AND STATISTICAL REVIEW

	Years Ended December 31					10 Months Ended Dec. 31	Years Ended February 28 or 29th			
	1966	1965	1964	1963	1962	1961	1961	1960	1959	1958
FINANCIAL (In Thousands of Canadian Dollars Except Per Share Figures)										
Cash Generated from Operations	$ 20,982	$ 19,028	$ 17,757	$ 16,775	$ 14,143	$ 8,544	$ 7,229	$ 3,792	$ 2,360	$ (210)
Depletion, Depreciation and similar charges	14,156	13,302	12,549	12,303	11,108	7,527	9,722	7,366	6,559	1,385
Net Operating Profit	$ 6,826	$ 5,726	$ 5,208	$ 4,472	$ 3,035	$ 1,017	$ (2,493)	$ (3,574)	$ (4,199)	$ (1,595)
Minority Interest	—	266	788	788	—	—	—	—	—	—
Net Profit (Loss)	$ 6,826	$ 5,460	$ 4,420	$ 3,684	$ 3,035	$ 1,017	$ (2,493)	$ (3,574)	$ (4,199)	$ (1,595)
Per Share:										
Cash Generated from Operations	$ 1.00	$.91	$.85	$.81	$.80	$.57	$.49	$.46	$.30	$ (.03)
Net Profit (Loss)	.33	.26	.21	.18	.17	.07	(.17)	(.44)	(.54)	(.25)
Net Assets before Long Term Debt	16.88	16.59	14.76	13.80	12.55	12.33	12.66	13.63	14.50	11.85
Shareholders' Equity	11.29	10.96	10.70	10.49	10.05	9.12	9.03	7.50	7.79	7.59
Total Net Sales:										
Crude Oil	$ 18,220	$ 17,329	$ 17,475	$ 16,948	$ 13,183	$ 9,616	$ 9,844	$ 8,020	$ 6,599	$ 1,875
Natural Gas	11,362	10,457	9,357	7,989	7,506	4,568	4,050	1,755	1,824	509
Manufactured Products	28,666	23,872	14,722	8,570	7,207	6,019	4,693	1,179	1,071	9
Other	3,309	3,073	884	—	—	—	—	—	—	—
Total	$ 61,557	$ 54,731	$ 42,438	$ 33,507	$ 27,896	$ 20,203	$ 18,587	$ 10,954	$ 9,494	$ 2,393
Working Capital	$ 8,317	$ 16,958	$ 3,714	$ 3,390	$ 3,323	$ 1,646	$ 1,366	$ 1,883	$ 5,937	$ (16,800)
Net Assets before Long Term Debt	$352,158	$346,102	$307,375	$286,912	$222,803	$183,718	$187,077	$111,130	$113,320	$ 74,683
Number of Shares Issued (000's)	20,868	20,857	20,831	20,802	17,759	14,906	14,776	8,151	7,815	6,303
Number of Shareholders	39,250	38,814	39,200	33,709	30,919	30,259	30,973	31,589	30,031	22,061
OPERATIONS										
Daily Production:										
Oil and Liquids (bbls.)	39,806	38,231	31,366	20,636	16,730	14,585	12,294	9,661	7,548	1,983
Natural Gas (mcf)	216,000	194,000	175,000	159,000	166,000	139,000	117,000	69,000	75,800	21,600
Net Acreage (000's):										
Total	7,874	6,365	5,384	4,941	3,999	4,606	5,155	3,428	3,717	3,603
Proven	339	254	232	213	179	158	155	89	74	28
Net Productive Wells:										
Oil	649	622	580	585	400	379	362	268	241	167
Gas	307	261	258	250	202	166	147	61	50	23
Number of Employees	743	688	606	520	370	400	372	388	472	583

Note: In some instances figures for earlier years have been changed from those previously published to reflect subsequent changes in accounting policies.

PACIFIC PETROLEUMS LTD.

INCORPORATED UNDER THE LAWS OF THE PROVINCE OF BRITISH COLUMBIA

BOARD OF DIRECTORS

A. PATRICK BOWSHER
Senior Vice-President and Treasurer
Pacific Petroleums Ltd.
Calgary, Alberta

JAMES E. CHISHOLM
Executive Vice-President
Pacific Petroleums Ltd.
Calgary, Alberta

JOHN GETGOOD
Vice-President Sales and Director
Phillips Petroleum Company
Bartlesville, Oklahoma

KELLY H. GIBSON
President
Pacific Petroleums Ltd.
Calgary, Alberta

JOHN M. HOUCHIN
Executive Vice-President and Director
Phillips Petroleum Company
Bartlesville, Oklahoma

EDWIN C. McDONALD
Chairman of the Board
Royal Bank of Canada Trust Company
New York, N.Y.

FRANK M. McMAHON
Chairman of the Board
Westcoast Transmission Company Limited
Vancouver, B.C.

GEORGE L. McMAHON
Vice-President and Director
Westcoast Transmission Company Limited
Calgary, Alberta

COLIN WEBSTER
President
Canadian Import Limited
Montreal, Quebec

NORMAN R. WHITTALL
Chairman of the Board
Inland Natural Gas Co. Ltd.
Vancouver, B.C.

OFFICERS

KELLY H. GIBSON	President and Chief Executive Officer
JAMES E. CHISHOLM	Executive Vice-President
A. PATRICK BOWSHER	Senior Vice-President and Treasurer
L. MERRILL RASMUSSEN	Vice-President Exploration and Production
REX A. HARFIELD	Vice-President Sales
JOHN ANDERSON	Secretary and Chief Legal Advisor

OTHER EXECUTIVES

A. M. McINTOSH
Manager Production

J. C. SCOTT
Manager Exploration

R. H. STONE
Manager Manufacturing

W. H. TYE
Manager Accounting and Services

Principal Subsidiaries

(Wholly or substantially owned)

Bailey Selburn Oil & Gas Ltd.
Petroleum Transmission Company
Quebec Propane Inc.
Venezuelan Canadian Oils, C.A. (Venezuela)
Venezuelan Pacific Petroleums, C.A. (Venezuela)
Western Natural Gas Company Inc.
Midland Industries Limited

Offices

Executive Office:
320 - 9th Avenue S.W.
P.O. Box 6666
Calgary, Alberta

Registered Office:
406 Mercantile Bank Building
540 Burrard Street
Vancouver, B.C.

Shares listed on New York, Toronto, Montreal, Vancouver, Calgary and Pacific Coast Stock Exchanges

The shares of Pacific Petroleums Ltd. are exempt from the United States Interest Equalization Tax and in the trading of these shares neither vendors nor purchasers are liable for this tax.

Transfer Agents

SHARES

Montreal Trust Company
Vancouver, Calgary, Toronto and Montreal

The Chase Manhattan Bank
New York, New York

Bank of America National Trust
and Savings Association
Los Angeles, California

BONDS

Montreal Trust Company
Toronto and Calgary

DEBENTURES

Eastern & Chartered Trust Company
Toronto and Vancouver

Bankers Trust Company
New York, New York

Registrars

SHARES

National Trust Company, Limited
Vancouver, Calgary, Toronto and Montreal

Manufacturers Hanover Trust Company
New York, New York

Security First National Bank
Los Angeles, California

BONDS

Montreal Trust Company
Toronto and Calgary

DEBENTURES

Eastern & Chartered Trust Company
Toronto and Vancouver

Bankers Trust Company
New York, New York

PACIFIC 66

PACIFIC PETROLEUMS LTD. P.O. BOX 6666 - CALGARY, ALBERTA

ALCRAFT · CALGARY
LITHOGRAPHED IN CANADA